



Public Employee Retirement System of Idaho

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. May 25, 2004. The following members were present:

Jody B. Olson  
Susan K. Simmons  
J. Kirk Sullivan  
Pamela I. Ahrens

Trustee Dennis Johnson was absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Geoff Lea  
Allen Shepard  
Rod MacKinnon  
William Palumbo  
Drew Black  
Brian McGrath  
Casey Maslonka  
Dennis Fitzpatrick  
Mike Boren  
Doug Bates  
Chris Growney  
Matt Haertzen  
Vickie Burnet  
Jim Coleman  
Janet Becker-Wold  
Michael O'Leary  
Jim Shakelford  
Blas Telleria

GMAC  
GMAC  
Mountain Pacific Investment Advisors  
Mountain Pacific Investment Advisors  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
Clearwater Advisors  
Clearwater Advisors  
Clearwater Advisors  
Endowment Fund Investment Board  
IPEA  
PERC – Retired Teachers  
Callan  
Callan  
IEA  
IEA

Matt Freeman  
Susan Marshall  
Hayes Miller  
Jeff Anderson  
Richelle Sugiyama  
Diane Berg  
Rhonda Yadon

LBO  
Baring Asset Management  
Baring Asset Management  
TCW  
PERSI  
PERSI  
PERSI

## OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Simmons, the Board unanimously approved the minutes of the March 30, 2004 regular meeting of the Retirement Board. The April 27, 2004 minutes were approved by those attending that meeting.

## PORTFOLIO

Quarterly Callan Report: Michael O'Leary discussed the DC Plan Quarterly report dated March 31, 2004, which had previously been provided to the Trustees. He then discussed the base plan performance for the quarter ending March 31. The report noted that PERSI enjoyed another strong quarter. The total fund advanced 3.58% for the March quarter, 18.86% for the fiscal year-to-date and 33.56% for the trailing 12 months. Mr. O'Leary then reviewed individual manager performance indicating there were no significant individual manager performance issues in that quarter.

Monthly Portfolio Update: Mr. Maynard discussed his investment report dated May 23, 2004, which was an update from a version previously provided to the Board. In the report, Mr. Maynard noted that the fund is up 13.5% for the fiscal year-to-date. Although the economic and earnings news has remained generally positive, the markets have taken a major hit since the last Board meeting due to the fear (and reality) of rising interest rates. The fund as a whole has lost 3.8% since the last Board meeting and now stands at 13.5% for the fiscal year-to-date. The major impacts of the current rise in interest rates and future expectations has been to make expected returns from stocks and bonds less attractive – projected long term cash flows are now valued less attractively than when lower interest rates were expected. Similarly, the US dollar becomes relatively more attractive to international currencies. Finally, slightly lower economic growth from a faster than previously expected rise in interest rates also lowers current values. The fear of interest rates rising significantly hurt two of PERSI's strategic allocations last month: TIPS and REITs. This month, international markets, and emerging markets in particular, have seen dramatic drops of 5-8%. As a result, for the first time in about three years, PERSI has seen a noticeable decrease in relative returns to the general markets.

Answering a question from the Chair in regard to whether or not the TIPS exposure is expected to maintain its current allocation levels, Mr. Maynard said he intends to keep 8-10% of the fund in TIPS as a major component of our allocation. When we look at our fixed income portfolio this fall, we may consider other international real returns. Having these in our portfolio allows us to control the risks of having a large equity allocation.

Idaho Commercial Mortgage Report: Geoff Lea and Alan Shepard reviewed their report of the Idaho Commercial Mortgage program dated May 11, 2004, which had previously been provided to the Trustees. Included in the annual audit was an evaluation of the administrative procedures, management processes and activities, inspection of portfolio reports, investment files, loan documents, underwriting reports, operating statements, and in some cases physical inspections of the underlying loan collateral. The review also included an assessment of DB Fitzpatrick's (DBF) performance as a primary servicer for PERSI. Additionally they conducted interviews with DBF staff, third party investment managers and lenders, as well as borrowers from the program. They informed the Board that DBF, and the program in general, met or exceeded all standards for similar programs.

Dennis Fitzpatrick and staff had previously provided their annual Idaho Mortgage Program report to the Board reviewing the details of the program. The program began October 1, 1989, with an asset balance of \$151,152,830 which has grown to the current April 30, 2004, balance of \$472,583,500. Currently there are no delinquencies in the commercial mortgage portfolio. Economist Brian McGrath indicated there is some competition from national lenders. However, Mr. Fitzpatrick feels this program fills a niche here in Idaho and is not just a "fair weather friend" to builders as the national lenders are. Mr. McGrath expects the Idaho economy to continue to recover well. He believes energy costs and construction material costs are affecting new commercial projects and will have inflationary impacts.

Investment Manager Search: Trustee Ahrens thanked Chairman Olson for appointing her to head this committee, saying she has enjoyed the experience. The committee had met and interviewed the equity manager search finalists identified by Callan Associates. There were a total of seven managers, one of whom was proposed for two different mandates. Of the seven, two are currently closed to new business. Trustee Simmons asked whether Callan had any conflict of interest in making these recommendations. Mr. O'Leary summarized the relationships, if any, and indicated that disclosures of any relationships with any of the recommended firms were previously provided to us in the manager search finalist materials. Trustee Ahrens noted that during the manager interviews, she asked each presenter to disclose any existing financial relationships with Callan. Of the manager finalists, two do not have any existing relationship with any Callan organization. Mr. O'Leary and Ms. Becker-Wold continued with a discussion of each of the proposed firms. They also noted that Delaware International will be changing their name as their separation from a larger firm is formalized.

Ms. Sugiyama provided a chart to the Board showing the current asset allocation, the intended rebalancing and funding of new managers and the post transition asset allocation. She also provided a memorandum dated May 24, 2004 with recommendations from the Investment Manager Search Committee.

By motion duly made by Trustee Ahrens and seconded by Trustee Simmons, the Board unanimously approved the hiring of the following equity managers: Donald Smith & Co., Inc.(Domestic); TCW Domestic; Bernstein (Global) and Delaware International (EAFE). In the same motion, the Board approved the termination of the Schroders Emerging Market account and the hiring of the Bernstein Emerging Markets team to manage that portfolio.

Mellon Transition Management Services has been retained as our transition manager to assist PERSI in rebalancing funds to our target allocation (70% equity/30% fixed income) and to help fund the new managers. CIO Maynard thanked everyone involved in the investment committee manager search.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. Hayes Miller from Baring Asset Management thanked the Board for their continuing confidence, saying the PERSI account is important to their firm. Jeff Anderson said TCW is pleased to be able to expand the relationship as one of the new equity managers hired through the search process. Clearwater Advisors is working with the Endowment Fund Investment Board on a cash equalization program. Mountain Pacific believes stocks will be higher a year from now and expects the handover of Iraq to cause market volatility. Richelle Sugiyama thanked Deputy AG Brad Goodsell and Financial Officer Jim Monroe for their work in regard to the manager contracts and upcoming transition and rebalancing.

#### EXECUTIVE DIRECTOR

Long Term Care Report: Mr. Winkle reviewed his April 21, 2004, memorandum to the Board regarding researching and drafting an RFP describing the recommended elements of a Long-Term-Care (LTC) insurance program. Trustee Ahrens said she believes PERSI should be active in the matter. Someone needs to perform due diligence and recommend an LTC provider, because currently any insurance company can apply to the Controller's office and arrange payroll deductions for premiums. This gives the impression that the State of Idaho is endorsing that company. Trustee Sullivan asked how many other state retirement systems offer LTC insurance. Mr. Winkle said he knows Alaska and Oregon do and believes several others may also. He will research that. He said recent PERSI surveys of both active and retired members indicate a desire by both groups for this type of insurance option. Mr. Sullivan asked whether PERSI is the right agency to look into this issue. Mr. Winkle replied that PERSI is an umbrella agency over all the government bodies and positioned to reach them all. Some employers currently offer LTC insurance if the company also offers another product to the employer. Chairman Olson said the Board is supportive of the study but not necessarily of PERSI's handling such a program. The study should include which other retirement systems offer this and the number of additional employees necessary to operate such a program. Identifying other agencies or ways to provide the service to employees should also be included.

Alternative Excessive Trading Approach: DC Plan Specialist Diane Berg provided copies of a letter to International Fund Choice Plan

participants for Board review. After discussion, by motion duly made by Trustee Sullivan and seconded by Trustee Ahrens, the Board unanimously approved the policy outlined in the letter dated May 25, 2004. Effective August 1, 2004, the number of trades (transfers) into and out of the two international funds, Mellon International and Brandes International, will be limited to two (2) trades per fund in a 90-day period. The 90-day period will be based on calendar days and will be calculated on a rolling period from the current date back 90 days. Systematic purchases and redemptions, such as payroll deferrals, rollovers, and scheduled periodic distributions, are exempt from this limitation.

DC Plan Activities: Ms. Berg then provided a year-to-date report on participation in the PERSI Choice 401(k) Plan. From the same period one year ago, assets are up 40%, member contributions are up 32%, and rollovers into the plan have also increased. The number of eligible members contributing is now 6,688 which is a 2% increase from last year at this time. Use of the voice-response system has decreased 73% while calls to a "live body" customer service representative at Mellon have increased 2%. Members are using the internet to make changes to their accounts; usage is up 95%. Mr. Winkle said since the market has turned around, we are seeing a large increase in those signing up for payroll 401(k) deductions.

Other Business: Trustee Sullivan was excused at 11:15 to attend a previously scheduled meeting.

## FISCAL

Update and Expense Reports: Financial Officer James Monroe told the Board that Anser Charter School is leasing the first floor of the PERSI building at 820 W. Washington beginning in August. He reviewed the administrative expense and the portfolio expense reports. He expects to finish the fiscal year with up to \$200 thousand budget savings. These include savings from reductions in mailing, printing and supply costs through use of electronic communication with our members and employers.

Quarterly Financial Statements: Senior Accountant Rhonda Yadon reviewed the report she had previously provided to the Board. Accrued Liabilities and Investments Purchased payables are notable in the report when compared to the prior year. The first is affected by the amount of investment management fees payable at statement date. Two managers were behind an extra quarter in providing accurate invoices. The liability for Investments Purchased is the result of securities traded prior to the quarter end that have not settled and currency contracts outstanding as shown in the report footnotes.

EXECUTIVE DIRECTOR– Continued:

Status Update: Mr. Winkle reviewed his May 18, 2004, memorandum to the Board which provided a summary of the projects in which PERSI is involved. The BPR team has completed interviews with staff documenting current processes. Meetings begin in June to begin process change planning. Employer meetings around the state continue. Mr. Winkle joined other staff for meetings in Sandpoint, Coeur d'Alene and Lewiston the week of May 17. They have been a great experience for the staff and employers as they meet face-to-face and work on common issues.

Mr. Winkle is working with universities and the State Board of Education regarding ORP/PERSI classifications and continuing the comprehensive review of the sick leave program.

The June regular meeting of the Board, previously scheduled for Pocatello, has been cancelled and the actuarial issues will be on the July 27 Boise meeting agenda. The Board has scheduled a retreat for June 9-10 in New Meadows. Trustee Johnson will host the retreat and Monica Massarand will facilitate the discussion sessions.

Adjournment: There being no further business before the Board, by motion duly made by Trustee Ahrens, seconded by Trustee Simmons and unanimously approved by members present, the meeting concluded at 11.29 a.m.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director